

INVESTMENT ADVISORY COUNCIL
WEDNESDAY, October 10, 2007

MEETING NO. 349

Members present:

Thomas Barnes
Thomas Fiore, representing
Robert L. Genuario
Michael Freeman
David (Duke) Himmelreich ¹
James Larkin, Chairman
George Mason
Denise L. Nappier, Treasurer
Sharon Palmer
David Roth
Carol Thomas

Absent:

William Murray
Peter Thor

Others present:

Howard G. Rifkin, Deputy Treasurer
Linda Hershman, Assistant-Deputy Treasurer/Chief of Staff
Lee Ann Palladino, Acting Chief Investment Officer
Patricia DeMaras, Associate Counsel
Greg Franklin, Assistant Treasurer-Investments
David Holmgren, Principal Investment Officer
David Johnson, Principal Investment Officer
Donald Kirshbaum, Investment Officer
Catherine E. LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Jason Price, Principal Investment Officer
Linda Tudan, Executive Assistant
Judy Balich, Executive Secretary
Else Taylor, Executive Secretary

Guests:

Joseph Barcic, Mercer Investment Consulting
Makaiya Brown, Mercer Investment Consulting
Chuck McDonald, Mercer Investment Consulting
Rich Nuzum, Mercer Investment Consulting
Jonathan Miles, Mercer Investment Consulting
Andrew Toczycki, Mercer Investment Consulting

¹ Arrived at 9:40 a.m

Raudline Etienne, CRA RogersCasey
Bradley Atkins, Franklin Park, LLC
Laura Backman, State Street Bank
Harvey Kelly, Leumas Advisors
Julie Naunchek, CSEA-Retiree Council #400
Thomas Woodruff, Office of the Comptroller
Margaret Haering, Office of the Comptroller

Chairman James Larkin called the Investment Advisory Council ("IAC") Meeting to order at 9:12 A.M.

Chairman James Larkin recognized the new traditional consultant for the Connecticut Retirement Plans and Trust Funds ("CRPTF") and had each representative from Mercer Investment Consulting ("Mercer"), who was in attendance, introduce themselves.

Approval of Minutes

Chairman Larkin asked for comments on the Minutes of the September 12, 2007 IAC Meeting. There being no comments, **a motion was made by Michael Freeman, seconded by Carol Thomas, that the Minutes of the September 12, 2007 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier began her opening comments by welcoming Mercer to its first official IAC meeting.

Treasurer Nappier then reported her decision to make a \$40 million commitment to AIG Altaris Health Partners Fund II, following her consideration of feedback from the IAC last month. She noted that this was a follow-on investment, as the CRPTF had a \$40 million dollar commitment to AIG Altaris Health Partners Fund I, bringing the total capital commitment to AIG Healthcare Partners, LP to \$80 million.

Treasurer Nappier also reported her decision to select two of the three semi-finalists for the Mutual Fixed Income Fund high yield mandate: Shenkman Capital Management and Stone Harbor Investment Partners. She said while feedback from the IAC was generally positive on all of the managers, the combination of new managers selected, along with the existing two high yield debt managers, provided the ultimate risk and return parameters that were being sought, and would give the CRPTF more flexibility to manage this segment of the portfolio.

Turning to the agenda for today's meeting, Treasurer Nappier noted that the top three candidates who would be presenting for the alternative investment consulting assignment; Callan Associates ("Callan"), Mercer and New England Pension Consultant ("NEPC"). She said establishing the alternative investment mandate would give the CRPTF

flexibility to consider evolving and market-driven strategies as opportunities arose, which currently are not permitted under the more traditional asset classes employed by the CRPTF. She then explained the various phases to launching the alternative investment mandate following the retention of a consultant, and highlighted the steps that will be subject to IAC review and approval. Also on today's agenda, Treasurer Nappier noted there would be presentations by two real estate firms and a private equity firm, and that in all cases she would be recommending a waiver of the 45-day comment period for each of these fund offerings, as they are all in the final stages of raising capital and expect to close shortly.

Treasurer Nappier stated that the first real estate manager presentation would be IL&FS India Realty Fund II, LLC ("IL&FS II") a highly recognized India-based firm which she is considering an investment of up to \$50 million. She said the next presentation would be Wilbur Ross Recovery Fund IV, L.P. ("WLR IV"), a private equity fund offering which she is considering an investment of up to \$100 million. She said the final presentation would be Canyon Johnson Urban Fund III, L.P., ("CJUF III"), a real estate fund offering which she is considering a commitment of up to \$50 million. She noted that Canyon Johnson Realty Advisors is an existing manager with which the CRPTF has a current investment of \$50 million. Treasurer Nappier informed the IAC that the contract with PCA Real Estate Advisors ("PCA") expired on September 30, 2007, but that Marc Weiss of PCA would join the meeting today via conference call to respond to any questions regarding his firm's due diligence on CJUF III. Treasurer Nappier also reviewed the status of the real estate consultant search and said the IAC would be receiving a notice to attend the semi-finalist interviews.

Treasurer Nappier offered brief remarks about the adopted revisions to the Investment Policy Statement ("IPS"), which today are before the IAC for consideration and approval. She noted that last month's IAC meeting represented the beginning of the official statutory review and approval process for the revised IPS. Treasurer Nappier further stated that the document before the IAC today included revisions based on the IAC members' feedback.

Treasurer Nappier reviewed other agenda items including the quarterly reports for the Combined Investment Fund ("CIF"), Private Investment Fund ("PIF") and Real Estate Fund ("REF") and a report of the Connecticut Horizon Fund ("CHF"). She commended Rogerscasey, Inc., and Raudline Etienne in particular, for assisting in the design and implementation of CHF, which has been pivotal to the program's solid performance. Treasurer Nappier said there would also be a presentation of the Third Party Fees Disclosure Process, noting that the purpose of this presentation was to give IAC members, who were not involved or present during the drafting of the Treasury Reform Act, a better understanding of the state laws regarding the ban on finder's fees and how her office maintains strict adherence to the related disclosure requirements.

CRPTF Final Performance for August 2007

Lee Ann Palladino, Acting Chief Investment Officer, reported on the July 31, 2007 performance and gave a preliminary update on August performance.

Ms. Palladino reported that the partial recovery in markets that got underway in the middle of August, when the Federal Reserve cut the discount rate by 50 basis points, continued as the Federal Open Market Committee at its September meeting, cut the Federal Funds rate by an additional 50 basis points. She indicated that these actions have somewhat calmed the markets, but there still remain pockets of concern particularly within the debt market.

Ms. Palladino pointed out that the specific to the CRPTF, underperformed slightly for August, 60% versus .77% for its benchmark. She stated that however, for the fiscal year to date and the calendar year to date, the CRPTF is performing above its benchmark and very close to its benchmark plus objective, respectively. Ms. Palladino recapped the results for each of the liquid funds and how each fund contributed to the overall performance.

Ms. Palladino discussed the PIF and the REF and the market factors affecting this asset class, particularly, the leveraged loan market, which accommodates the financing of PIF and REF deals. She noted that given the dislocation in the debt markets that occurred in the July/August timeframe, the ability to securitize and sell these leverage loans dried up, which left the banks with over \$325 billion of commitments and a greatly diminished demand from institutional investors. She continued to say, the inability to turn these loans around will slow down the pace of new activity through the remainder of 2007 and the first quarter 2008.

Ms. Palladino recapped the performance of the PIF and REF, and noted that the leveraged loan issue should not move the REF and PIF off track, but should allow the consistency to strategically maintain a pace of about \$500 million per year.

Consideration of Three Semi-finalists for Alternative Investment Consulting Search

Ms. Palladino provided opening remarks regarding the alternative investment consultant search and presentations. Ms. Palladino noted that the first presenter, Callan Associates is a well-known consulting firm that has been in business for over 30 years consulting on many asset classes including the alternatives marketplace. She stated that Mercer, also a large, well-know consulting firm, includes a global alternatives manager research team whose focus is consulting on portfolio construction, implementation and monitoring of the alternative investments asset class. Mercer has in excess of \$10 billion in client exposure to alternative investment vehicles. Ms. Palladino noted that the final presentation would be from NEPC, which has significant experience working with alternative assets and has been providing investment advice to clients in this area since 1988.

Presentation by Mercer Investment Consulting

Mercer made a presentation to the IAC on its alternative investment strategy. Mercer was represented by Joseph Barcic, Principal; Makaiya Brown, Senior Associate; Chuck McDonald, Principal; Rich Nuzum, President; Jonathon Miles, Manager; and Andrew Toczycki, Principal. Mr. Nuzum provided an overview of the firm and its strategy for developing an alternative investment program. Mr. McDonald discussed the firm's experience with large funds and its approach to opportunistic investing using a transparent platform. Mr. Nuzum also spoke about global manager research, a specialist research team and their ability to add value.

The representatives from Mercer responded to questions from the IAC members regarding their procedure for terminating managers, hedge fund performance, HFR² group and Central Bank clients.

Presentation by Callan Associates

Callan Associates made a presentation to the IAC on its alternative investment strategy. Representing Callan was Mark Kline, Executive Vice President and Susan Crotty, Senior Vice President. Mr. Kline provided an overview of the firm and its investment philosophy. Ms. Crotty discussed the firm's methods, its structuring of an alternative portfolio. She provided an overview of the use of real assets, hedge funds and educational resources.

Mr. Kline and Ms. Crotty responded to questions of the IAC members regarding Callan's recommendations for using a fund-of-fund structure; due diligence process; Timberland and Agricultural funds; risk controls, clients last year with significant devaluation; percentage amount of hedge funds; and other funds that are available.

New England Pension Consultants

NEPC made a presentation to the IAC on its success with alternatives. Representing NEPC was Richard Charlton, Chairman and CEO; Sean Gill, Partner; Doris Ewing, Partner; and Jaeson Dubrovay, Senior Consultant. Mr. Gil discussed the firm's alternative investment edge and alternative organization structure. Mr. Dubrovay discussed the firm's investment policy development and the development of goals and objectives.

Mr. Charlton provided an overview of the firm and its ability to add value through experienced stable senior staff and technology. He also discussed in some depth, the firm's success with alternative investments. Mr. Dubrovay discussed the firm's due diligence process and performance.

Mr. Charlton and Mr. Dubrovay responded to questions about alternative investments and the boundaries between traditional and alternative investment consultants.

² Mercer's partnership with Hedge Fund Research, Inc. ("HFR").

Roll Call of Reactions for the Semi-finalists for Alternative Investment Consultant

Messrs. Barns, Freeman and Chairman Larkin ranked them in order of NEPC, Mercer and Callan. Mr. Himmelreich said that he would be fine with all three firms and stated that he would be comfortable with any decision the Treasurer makes. Messrs. Fiore, Roth and Ms. Palmer ranked them in order of NEPC, Callan and Mercer. Mr. Mason rated them in order of Mercer, NEPC and Callan. Ms. Thomas said she would rank them in order of NEPC and Callan. Mercer was not on her list.

Chairman Larkin asked for a motion to waive the 45-day comment period for the Semi-Finalist Alternative Investment Consultants. **A motion was made by Ms. Thomas, seconded by Mr. Mason to waive the 45-day comment period for the Semi-Finalist for Alternative Investment Consultant. The motion was passed unanimously.**

Presentation by IL&FS India Realty Fund II, LLC

David Johnson, Principal Investment Officer, provided opening remarks and introduced IL&FS II, a real estate investment opportunity to which the CRPTF is considering a commitment of up to \$50 million in the fund. Mr. Johnson noted that this investment is an opportunity for the CRPTF to increase its real estate exposure internationally, in general, and invest a first time allocation of funds in the Indian market. He said that the CRPTF's target exposure to international real estate is 20% of the REF, and the CRPTF is currently invested at 5.4%. Mr. Johnson noted that IL&FS II is a Mumbai based firm with extensive political and business contacts within India. He also noted that IL&FS Fund I was fully invested within fourteen months and is projecting a 50% return for its investors. Mr. Johnson reviewed the economy of the Indian market and its strong real estate growth prospects.

Discussion ensued and Mr. Johnson responded to IAC members concerns on how rapidly IL&FS moved from Fund I to Fund II and questioned the strategic implementation of the CRPTF's exposure to emerging markets, and the political relationship between Pakistan and India and the currency exposure.

Presentation by IL&FS India Investment Managers Limited

IL&FS Investment Managers Limited made a presentation to the IAC on IL&FS II. IL&FS was represented by Shahzaad Dalal and Archana Hingorani, both principals of the firm. An overview of IL&FS II was provided as well as information describing the firm's multifaceted investment strategy. IL&FS indicated that the firm invests primarily in office, residential, retail, hospitality and mixed-used properties throughout India. IL&FS Investment Managers Limited sponsored the first major Indian real estate fund backed by US and international institutional investors. Information was also provided regarding Fund I, stating that Fund I has a superior track record.

Mr. Dalal and Ms. Hingorani responded to questions from the IAC members regarding the percentage of the middle-income population and the rising sea levels impact. IAC members also raised concerns about key people and the re-use of industrial land.

Roll Call of Reactions for IL&FS India Realty Fund II, LLC

Mr. Mason, Mr. Himmelreich, Mr. Fiore, Mr. Freeman, Mr. Barnes, Ms. Thomas, Mr. Roth, Ms. Palmer and Chairman Larkin strongly supported the commitment. Mr. Himmelreich was also supportive, but noted one concern about the economy and the future legal rights of the CRPTF.

Chairman Larkin asked for a motion to waive the 45-day comment period for IL&FS India Realty Fund II, LLC. **A motion was made by Mr. Freeman, seconded by Mr. Himmelreich, to waive the 45-day comment period for IL&FS India Realty Fund II, LLC. The motion was passed unanimously.**

Presentation by WLR Recovery Fund IV, L.P.

Jason Price, Principal Investment Officer, provided opening remarks and introduced WLR IV, a private investment opportunity to which the CRPTF is considering a commitment of up to \$100 million. Mr. Price noted that WLR IV will purchase securities of financially distressed, or underperforming businesses operating in out of favor industries and will focus on acquisitions of underperforming companies, assets out of Chapter 11 bankruptcy and purchases of public and private debt securities and distressed bank loans with the intent of ultimately restructuring the underlying company in order to gain control. He said that the Fund will generally seek to purchase senior securities at discounted prices. Mr. Price also stated that WLR IV Fund I has invested \$1.3 billion in 141 companies and that performance to date has been good, having generated a gross ROI and IRR of 2.2x and 48.4%, respectively.

Brad Atkins of Franklin Park responded to questions regarding WLR IV, key man insurance and a contingent liability stemming from a lawsuit.

Presentation by WL Ross & Co. LLC (WLR)

WL Ross & Co. LLC made a presentation to the IAC on WLR IV. WLR IV was represented by Wilbur Ross, Principal of the firm, who provided an overview of WLR IV. He discussed that the key components for successful distressed investing were the following: distressed buyout focus, history of the firm and working with labor unions. He provided an overview of the three recovery funds types of investments expected in WLR IV and the amount of leverage.

Mr. Ross responded to questions from the IAC regarding the General Partners commitment to the fund, the key-man provision and issues related to succession concerns. Mr. Ross discussed the size of Fund IV in comparison to the last fund.

Roll Call of Reactions for WLR Recovery Fund IV, L.P.

Ms. Palmer, Mr. Roth, Ms. Thomas, Mr. Barnes, Mr. Freeman, Mr. Himmelreich, Mr. Mason, Mr. Fiore and Chairman Larkin supported the commitment.

Chairman Larkin asked for a motion to waive the 45-day comment period for the WLR Recovery Fund IV, L.P. **A motion was made by Mr. Himmelreich, seconded by Ms. Thomas, to waive the 45-day comment period for the WLR Recovery Fund IV, L.P. The motion was passed unanimously.**

Presentation by Canyon-Johnson Urban Fund III

Mr. Johnson provided opening remarks and introduced CJUF III, a REF investment opportunity in which the CRPTF is considering a commitment of up to \$50 million. He noted that the fund is targeting \$750 million to invest in urban real estate throughout the United States. Mr. Johnson also noted that CRPTF is a \$50 million investor in Canyon-Johnson Urban Fund II, ("CJUF II"), which has committed to sixteen major developments with a total capitalization of \$2.4 billion. Mark Weiss of PCA Real Estate Advisors attended this presentation via a conference call. Mr. Weiss discussed PCA's position on CJUF III and the means for supporting an investment in this fund.

Presentation by Canyon-Johnson Urban Fund

Canyon-Johnson Urban Fund, ("CJUF"), made a presentation to the IAC on CJUF III. CJUF was represented by Bobby Turner, Managing Partner and Neville Rhone, Director. An overview of funds I and II was provided along with the firm's investment philosophy and the specifics of CJUF III.

Mr. Turner responded to a question from an IAC member regarding the locations in which CJUF III is seeking to invest.

Roll call of Reaction for Canyon-Johnson Urban Fund III

Mr. Mason, Mr. Himmelreich, Mr. Freeman, Mr. Barnes, Ms. Palmer, Ms. Thomas, Mr. Roth and Chairman Larkin supported the commitment. Mr. Fiore was not in favor of the investment because of his concern with track record.

Chairman Larkin asked for a motion to waive the 45-day comment period for Canyon-Johnson Urban Fund III. **A motion was made by Mr. Mason, seconded by Ms. Thomas to waive the 45-day comment period for the Canyon-Johnson Urban Fund III. The motion was passed by a majority.**

Consideration of Treasurer's Proposed Revision to the Investment Policy Statement

Chairman Larkin asked the IAC for comments regarding the IPS. Deputy Treasurer Howard Rifkin stated that the Treasurer adopted the amendment of the IPS as of October 3, 2007. Deputy Treasurer Rifkin indicated that there was one substantial change outlined in the letter from the Treasurer regarding the "Watch List Procedure", which is contained in the Appendix. He noted that other clarifications of the process for amending the appendix were modified. Deputy Treasurer Rifkin said that Chairman Larkin had a resolution before him to be executed. Chairman Larkin stated that the language on the Watch List was well crafted.

Chairman Larkin asked for a motion to approve the IPS as adopted by Treasurer Nappier. **A motion was made by Ms. Palmer, seconded by Ms. Thomas, to approve the Investment Policy Statement as adopted by Treasurer Nappier. The motion was passed unanimously by the members present.**

Presentation of third Party Fees Disclosure Process

Shelagh McClure, Director of Compliance, presented a report on the disclosure process for Third Party Fees. She provided an informational presentation of the laws associated with the third party fee disclosure requirements and reviewed how the Treasury appropriately implements these disclosures.

Quarterly Review of Funds

David Holmgren, Principal Investment Officer, reported on the overall investment results for the CIF as of June 30, 2007. Mr. Price reported on the PIF as of March 31, 2007. Mr. Johnson reported on the REF as of March 31, 2007.

Connecticut Horizon Fund

Mr. Holmgren reported on the CHF quarterly performance.

Consideration of Law Firm Recommendations

Catherine LaMarr, General Counsel, reported on the selection of two new law firms for the CRPTF's pool of legal advisors – litigation; Cohen Milstein Hausfeld and Wolf Popper/Shea. She said these firms have an international platform that would be beneficial to the CRPTF should the need arise as its international investment exposure is increased.

Other business

Ms. Palladino stated that the semi-finalists for the real estate consultant would provide presentations at the November IAC meeting.

Deputy Treasurer Rifkin suggested that there be a personnel committee meeting following the November IAC meeting.

Chairman Larkin appointed IAC members to various subcommittees. He discussed each of his appointments. Chairman Larkin distributed a table with the appointments he made to the various IAC committees. He discussed each of his appointments noting that the committee chairs were Mr. Himmelreich, Audit; Ms. Palmer, Services Provider; Mr. Roth, Personnel; Michael Freeman, Education; and Ms. Thomas, Asset Allocation.

There being no further business, the meeting was adjourned at 4:10 P.M

An audio tape of this meeting was recorded.

Respectfully submitted,


DENISE L NAPPIER
SECRETARY